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SUBJECT: The Impact of Rotation in Israel [REDACTED]

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NESA M#86-20154

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Central Intelligence Agency


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DIRECTORATE OF INTELLIGENCE

1 October 1986

The Impact of Rotation on Israel Summary

Given the checks and balances built into Israel's National Unity Government, no dramatic changes in government policy are likely after Prime Minister Peres (Labor Party) switches jobs with Vice Premier and Foreign Minister Shamir (Likud) in mid-October. The balance between Labor and Likud will remain in the 10-member executive inner cabinet, giving Labor the ability to veto Likud initiatives. Shamir will, however, discourage moves toward an international conference on Middle East peace. Likud also may try to build a few new settlements on the occupied West Bank to placate hardline supporters. Labor and Likud agree on the broad outlines of policy in several other key areas--the economy, South Lebanon, and response to terrorism.

Both Peres and Shamir have vested interests in assuring the continuation of the Unity Government--making the chances even that it will complete its term ending in the fall of 1988. Peres does not want to tarnish his new hard-won image for honesty, nor is he confident that Labor can attract sufficient religious party support to put together a narrow coalition. Shamir will likely work to maintain the Unity Government in order to discourage challenges from his Likud rivals, Trade Minister Sharon and Deputy Premier Levy.

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This memorandum was prepared by the Israel-Jordan-PLO Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. Information as of 1 October 1986 was used in its preparation. Questions and comments should be addressed to Chief, Arab-Israeli Division,

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Background on Rotation

Aside from the switch in positions between Peres and Shamir, no other changes in government structure are mandated by the unity agreement, although there may be some cabinet shifts incidental to rotation. ^{1/} The balance of forces between Labor and Likud in the Knesset, Cabinet, and most importantly the inner cabinet will remain the same. Both Peres and Shamir retain the right to refer any issue they want to the 10-man Inner Cabinet for a decision. Because of the five-five split in the Inner Cabinet between Labor and Likud members, Labor will be able to block controversial Likud initiatives after rotation. [REDACTED]

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Yitzhak Rabin, second in Labor to Peres, will remain as Defense Minister with the key role in formulating defense and security policy. We believe that Rabin will serve as a restraining influence on Likud hardliners--led by Trade Minister Sharon--who support more extensive use of force in the region, especially against Syria. Rabin also retains ministerial responsibility for day-to-day administration of the occupied territories. While Rabin is not opposed ideologically to greater local authority for Arabs on the West Bank and Gaza, his overriding concern for security in the territories--combined with the absence of an activist Prime Minister like Peres--probably will retard efforts to allow Palestinians increased self-rule. [REDACTED]

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Foreign Policy After Rotation

Given the continued balance between Labor and Likud in decisionmaking bodies, no dramatic changes in foreign policy are likely, although Shamir's style and tone will differ markedly from Peres's. Shamir's tougher and more inflexible rhetoric by itself may discourage already limited prospects for progress in relations with neighboring countries. [REDACTED]

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^{1/} Likud has been one person short in the full Cabinet since Justice Minister Modai was forced to resign in late July. Shamir has hinted he will bring Modai back into the Cabinet after rotation. Health Minister Motta Gur of Labor has declared he would resign rather than serve under Shamir. The National Religious Party has voted to replace longtime Minister of Religious Affairs Yosef Burg with the more hawkish Zevulun Hammer. [REDACTED]

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[redacted]

Likud's inflexible attitudes may further slow progress on peace issues. If Arab-Israeli preparatory committees or an international conference were close to realization, Likud and Labor might even decide to resolve the issue via a national election. [redacted]

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Shamir will try to maintain the improvement in relations with Egypt, but his tougher rhetoric may hurt. He frequently has criticized the Egyptians publicly for their slowness in expanding normalization. Shamir--unlike Peres--does not have good rapport with the Egyptian leadership. If he continues to harp on perceived Egyptian violations of the Camp David accords, it may cause renewed chilliness in Israeli-Egyptian relations. [redacted]

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[redacted]

Labor and Likud agree on the broad outlines of other key foreign policy issues. Both endorse the security zone maintained by General Lahad's Israeli-allied Army of South Lebanon as Tel Aviv's only viable option to preserve the security of its northern border. Both favor strong responses to Palestinian and Lebanese terrorism.

Likud probably is more willing to engage Syria militarily in retaliation for its support of attacks against Israeli and Lahad forces, for Syrian support of terrorist operations against Israeli interests abroad and to head off Syria's massive military modernization program. But, we believe Defense Minister Rabin, who does not want a conflict with Syria, will restrain Likud adventurism in the interest of strengthening Israel's international support--particularly from the United States--should Syrian military moves or support of terrorism eventually compel Tel Aviv to respond militarily. [redacted]

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Economic Policy after Rotation

Shamir takes over an economy that has made significant progress toward stabilization since implementation of a tougher austerity program in July 1985. Tighter monetary policy and measures designed to reduce the budget deficit have combined to slash inflation to a monthly rate of 1-1.5 percent compared with a 15-20 percent rate a year earlier. The government and private sectors in September capped a comprehensive set of wage agreements that at least temporarily will ensure that inflation is kept at acceptable levels. An 18.9 percent devaluation of the shekel--and substantial US supplemental economic assistance--contributed last year to the first positive balance of payments in over 30 years. Current trends indicate a favorable balance will be repeated in 1986. [redacted]

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Under Shamir, the government is likely to continue with the economic policies initiated under Peres. The Likud leadership generally agrees with current objectives, and, in any event, is unlikely to risk a major policy shift for fear of making Likud vulnerable to voter displeasure. Labor has been pushing for a continued role in economic decisionmaking, and Shamir may acquiesce to spread the blame should the economy take a turn for the worse.

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Shamir has announced that his economic program will focus on several key issues--some of which already are under consideration--including tax reforms; cuts in subsidies and public sector spending; and increased productivity and employment. A ministerial committee already has approved a reform package aimed at reducing the government's role in the capital markets. A proposal to revamp the tax system currently is circulating among various government ministries and private groups.

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Shamir will have to walk a careful line during his two-year term, however, if he is to balance sustained reductions in the budget deficit with increased employment and heavy military spending. Growing budget deficits would generate strong pressures to increase taxes, further devalue the shekel, and borrow money to avoid spending cuts in Israel's pervasive social welfare programs. An early resurgence of inflation would spark labor demands for wage increases at the next round of wage negotiations in March 1987, which could severely damage the stabilization effort. On the other hand, further reductions in expenditures--including defense spending--would exacerbate unemployment and further complicate Israel's efforts to maintain qualitative military superiority over the Arabs.

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The Durability of the Unity Government After Rotation

We believe the chances are good that Israel's Unity Government will survive several months to one year after rotation, and there is an even chance it will complete its term ending in the fall of 1988. The same vested interests that kept Peres and Shamir from ending their uncomfortable power-sharing arrangement from 1984 to 1986 will continue to operate after rotation.

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Peres is not confident that Labor can form a narrow government, given its failure to entice the religious parties to enter a non-Likud coalition. In the current Knesset, Labor and the small left-of-center, Zionist parties have a total of 53 seats. They could not reach the necessary 61-seats necessary for a coalition majority in the 120-member Knesset without support from some of the religious parties. We believe that such support is unlikely because of the continuing rightward drift of the National Religious Party and hardening attitudes among the SHAS Sephardi religious party leadership. The two parties together control nine of the 13 Knesset seats held by the religious parties.

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Peres clearly is not convinced that Labor can win a sufficiently decisive victory and, therefore, will be unlikely to force an early demise of the Unity Government. Israeli polling data suggest that Labor would not be in a much better position after a new national election. Although most polls suggest Labor would gain a few seats and Likud lose several, such polls have consistently overvalued Labor and underestimated Likud strength. Even with several extra seats, Labor would still be unable to form a coalition without some religious parties. [REDACTED]

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Peres's concern with his image probably will continue to dissuade him from bringing down the government, especially in the first several months after rotation, short of a dispute with Likud over a major Arab-Israeli issue, such as participation in an international peace conference. Peres is powerfully motivated by a desire to maintain the image for honesty and integrity he developed over the past two years. In our view, his desire to maintain his voter credibility was an important contributor to his decision to honor his commitment to switch posts with Shamir. Peres feared that voters would punish him in subsequent elections if he were seen as having seized on a weak pretext for ending the government. [REDACTED]

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Likewise, Shamir's motives for maintaining the Unity Government will be the same after rotation as before. In particular, fierce competition for leadership of Likud probably will convince Shamir to strive for a full, two-year term in order to delay what promises to be an intense struggle for party control among leaders of Herut, the dominant Likud faction. [REDACTED]

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The Impact of Rotation on Labor Party Politics

Peres will continue activity to promote his foreign policy goals after rotation. His primary effort undoubtedly will be to advance the peace process. [REDACTED]

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Even though Peres is in firm control of the Labor Party, his policies already are being challenged more by some party members than during the last two years. He inevitably will lose the extra power and prestige that goes with the premiership when he switches jobs with Shamir in October. Without the "untouchable" status he had developed while in the Prime Minister's office, Peres will be more susceptible to challenge for party leadership as the next national election draws nearer. [REDACTED]

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Progress on the peace process could help Peres's position within the party; continued stalemate would probably hurt it. If the Unity Government lasts until 1988, Peres could face a serious challenge for leadership of the party. His most likely challenger would be former rival Yitzhak Rabin, who would probably see 1988 as his last chance to regain the premiership. [REDACTED]

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The Impact of Rotation on Likud Party Politics

Shamir's tenure as Prime Minister will give him a slight edge over his rivals in the Herut leadership battle. Yet the bitter, relentless competition among Shamir and his rivals--former Defense Minister Arens, Deputy Premier Levy and Trade Minister Sharon--will continue to boil just below the surface. Nevertheless, we believe that Levy and Sharon will refrain from mounting early challenges to Shamir in order to avoid censure within the party for jeopardizing Likud's control of the premiership.

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Next 6 Page(s) In Document Denied